



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	HB0815	<b>Title:</b>	Appropriation to pay off general obligation bonds
<b>Primary Sponsor:</b>	Stahl, Wayne	<b>Status:</b>	As Introduced

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2             | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
General Fund	\$45,092,609	(\$5,513,688)	(\$5,507,299)	(\$3,703,354)
Other - Debt Service	\$50,000,000	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
Other - Debt Service	\$50,000,000	\$0	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<u>(\$45,092,609)</u>	<u>\$5,513,688</u>	<u>\$5,507,299</u>	<u>\$3,703,354</u>

**Description of fiscal impact:** There will be a transfer of \$50 million from the general fund to the debt service fund. Four general obligation bond series will be cash defeased, reducing the transfers that are made from the general fund to the debt service fund on debt service payment dates.

### FISCAL ANALYSIS

#### Assumptions:

1. The responsibility for debt service on some general obligation bonds falls on sources other than the general fund.
2. Only the general obligation bonds whose debt service is paid by the general fund will be considered for redemption. Those bonds are Long-Range Building Program (LRBP) Bonds.
3. Defeasance means funds have been placed in an irrevocable trust or escrow to provide for all future debt service payments on the old bonds. The escrow account assets and the liability for the defeased bonds are not includible in the state's financial records. Provision for the funds to be placed into the escrow

account can be made by the issuance of new bonds or by available cash. The latter method is referred to as a cash defeasance.

4. A cash defeasance places into an escrow account the amount of money which, along with interest earnings, will be sufficient to pay the principal and interest up to the call date and the remaining principal at the call date.
5. It is assumed that the intent of the bill is to cash defease bonds.
6. The money in the escrow account is yield restricted and will be invested in state and local government securities.
7. In order to decide which of the LRBP bonds will be defeased, they will be ranked according to lowest net present value loss per refunded principal, taking into account the \$50 million limit. The selected series are shown below.

	<b>SERIES 1998B **</b>	<b>SERIES 2001B</b>	<b>SERIES 2002B</b>	<b>SERIES 2006A</b>	<b>TOTAL</b>
Total Debt Service Savings	5,411,708	11,832,925	12,193,096	40,242,488	69,680,217
Net PV Cashflow Savings @ 5.00%	5,131,507	8,680,478	8,632,890	26,017,568	48,462,443
Total Cash Contribution	5,168,097	8,833,714	9,055,952	27,315,561	50,373,324
Estimated Escrow Earnings *	4.888	4.619	4.117	4.313	
Net Debt Service Savings	243,611	2,999,211	3,137,144	12,926,927	19,306,893
Net Present Value Loss	(36,590)	(153,236)	(423,062)	(1,297,993)	1,910,881
Net PV Loss / Refunded Principal	-0.72%	-1.78%	-4.78%	-4.95%	

\* Escrow Restricted to Bond Arbitrage Yield

\*\* Bond Arbitrage Yield not Verified by Bond Counsel

8. Series 1998B, 2001B, 2002B and 2006A will be cash defeased on or about July 1, 2007 with \$50,373,324 being placed into an escrow account. The additional \$373,324 necessary for this transaction will come from the amount that would have been used for the August 1, 2007 debt service payment.
9. Total debt service savings from the cash defeasances will be \$69,680,217.
10. Total net present value (PV) cash flow savings at 5.00% will be \$48,462,443.
11. The difference between the total cash contribution and the total net present value savings is the total net present value loss which will be \$1,910,881.
12. A portion of debt service on the Series 2006A is required to be paid by the Department of Transportation (MDT)'s state special revenue fund. The portion that is the responsibility of MDT will not be defeased and is shown in the table below for FY 2008 – FY 2011.

#### **Series 2006A Debt Service**

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
GF portion	1,838,275	2,071,975	2,064,775	2,061,275
MDT portion	563,300	608,500	602,300	605,500
Total	2,401,575	2,680,475	2,667,075	2,666,775

13. Amounts necessary for regular debt service payments are transferred from the general fund to the debt service fund. The table below show what the transfers for debt service would have been for FY 2008 through FY 2011 would have been had they not been defeased.

<b>SERIES</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
1998B	1,807,375	1,801,385	1,802,948	0
2001B	839,798	840,248	840,215	839,460
2002B	795,268	800,080	799,361	802,619
2006A	1,838,275	2,071,975	2,064,775	2,061,275
Total	5,280,715	5,513,688	5,507,299	3,703,354

	<b><u>FY 2008 Difference</u></b>	<b><u>FY 2009 Difference</u></b>	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Debt Service (Bond Defeasance)	\$50,000,000	\$0	\$0	\$0
Transfers (From Gen. Fund to Bond Debt Serv. Acct)	\$50,000,000	\$0	\$0	\$0
Transfers (See assumption #8)	\$373,324	\$0	\$0	\$0
Transfers (Original Debt Service Payments)	(\$5,280,715)	(\$5,513,688)	(\$5,507,299)	(\$3,703,354)
<b>TOTAL Expenditures</b>	<b><u>\$95,092,609</u></b>	<b><u>(\$5,513,688)</u></b>	<b><u>(\$5,507,299)</u></b>	<b><u>(\$3,703,354)</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$45,092,609	(\$5,513,688)	(\$5,507,299)	(\$3,703,354)
Other - Debt Service (05)	\$50,000,000	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b><u>\$95,092,609</u></b>	<b><u>(\$5,513,688)</u></b>	<b><u>(\$5,507,299)</u></b>	<b><u>(\$3,703,354)</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
Other - Debt Service (05)	\$50,000,000	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<b><u>\$50,000,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$45,092,609)	\$5,513,688	\$5,507,299	\$3,703,354
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0

**Long-Range Impacts:**

1. Total debt service savings from the cash defeasances will be \$69,680,217.
2. Total net present value cash flow savings at 5.00% will be \$48,462,443.
3. Net present value loss will be \$1,910,881 (net present value cash flow savings less cash contribution of \$50,373,324).

**Technical Notes:**

1. The bill does not specify whether all general obligation bonds should be considered or whether it only applies to general obligation bonds whose debt service is primarily payable by the general fund.
2. It is not clear whether an immediate cash defeasement for the entire issue is desired or whether the amount escrowed should only be for the amounts associated with the principal remaining at the call date. Under the latter scenario, regular debt service payments (reduced by the amount of interest associated with the principal being called) would continue until the call date. Since the bill states that the \$50 million is to be used for debt service, those regular debt service payments would reduce the amount available in the fund for redemptions.
3. The state's bond counsel recommends that this bill not be codified.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*